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ABSTRACT

An analysis of Australia's vocational education market reveals that the Technical and Further Education (TAFE) system is still the dominant provider of postcompulsory off-the-job vocational education and training in Australia. In the education and training (E&T) services market, TAFE is in competition with other public and private schools, universities, adult community education, industry skill centers, and commercial and enterprise training providers. The Australian market for E&T services is not, however, an open competitive market with full and fair competition among the providers of postcompulsory E&T. The desirability of formulating and implementing policies making vocational education more market responsive were considered in light of the following factors/issues: inherent conflicts between policies encouraging competition and those encouraging cooperation; limits of markets as instruments of social choice; the need to balance educational and labor markets; access and equity; quality; the benefits/drawbacks of fee-for-service, joint venture, tendering, and voucher arrangements and incorporating TAFE; and distortions. It was concluded that the general concept of developing a more competitive market is a good one provided it is understood in terms of a regulated rather than laissez-faire market. (Contains 83 references.) (MN)

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# Calling the tune

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DAVID LUNDBERG

## Market responsive vocational education: A discussion paper

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# Calling the tune

DAVID LUNDBERG

Market-responsive vocational education:

A discussion paper

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# Calling the tune:
## Market-responsive vocational education—
## A discussion paper

### Introduction

While the views of some involved in the provision of TAFE and community education might suggest otherwise, the market for education and training services in Australia is not merely a policy option. It is a structural reality, whatever those participating in it think of it, and however distorted its operation may be.

A market exists when one or more people wishing to obtain goods or services seek to obtain them from one or more people wishing to supply goods or services, under terms and conditions upon which the parties agree. Goods or services may be sold with money as a medium of exchange, direct or indirect, or they may be bartered. A 'free' market is one in which the relationship of the demand from buyers and the supply from providers of goods or services operates to determine the price of available goods or services without external interference or inhibition.

The Australian market for education and training services encompasses public and private providers, including kindergarten

and childcare, schools, TAFE, universities, adult community education, industry skill centres, and commercial and enterprise training providers. Some of these categories of providers, notably kindergarten and childcare, enjoy natural protection from other categories of providers through age segregation of their clientele, but there is real competition within the category of kindergarten and childcare providers. The same is true for schools in the compulsory education years, where there is age-segregated competition between public and private schools.

In post-compulsory education and training, there is (somewhat distorted) competition in a market for education and training services provided by public and private schools, TAFE, universities, adult community education, industry skill centres, and commercial and enterprise training providers.

There is not complete and direct competition between each and all of these types of providers, because to some extent they operate in and service market niches which only partially overlap with services provided by other types of provider, and because of public policies which impact on supply. Universities compete with others in Australia and overseas, and they also compete with TAFE in terms of partial overlap (associate diplomas and graduate certificates) and alternative career paths. This competition is affected by social attitudes related to the prestige of university and TAFE education, and the status accorded to and incomes earned by people in occupations for which universities and/or TAFE provide the required preparation (Chapman & Smallwood 1992). These social attitudes appear to be more significant than the cost of education and training provision or income forgone during education as factors affecting choices made by students and their parents, because the costs are perceived as an investment.

While progression from TAFE to university is the 'normal' model in terms of community prejudices, survey data suggest that about 15% of university graduates take TAFE courses (Williams 1989). Some do so for personal interest or recreation, but some seek to acquire

vocationally specific qualifications, to add better prospects of employability to the benefits of a general university degree. Co-operative articulation and credit transfer arrangements between universities and TAFE are evidently in the interests of both types of institutions, and their present and potential clients.

TAFE is the dominant provider of off-the-job vocational education and training in Australia. TAFE consists of eight State or Territory systems, for which about two-thirds of capital funding and about one-sixth of recurrent funding (including fee-for-service labour market programs) came from the Commonwealth, and the remainder of capital and recurrent funding came from State or Territory governments. In 1994, a new system of funding through the Australian National Training Authority (ANTA) came into effect.

TAFE has operated as a publicly-funded provider with funding, staffing and curricula co-ordinated at the State or Territory level. In 1989, federal, State and Territory ministers agreed to establish a National Training Board (NTB), and they entered into a joint memorandum of understanding in terms of which State and Territory ministers agreed that vocational education and training would be nationally consistent with vocational competency standards developed by industry through competency standards bodies, and endorsed by the NTB.

Particularly before recent reforms were initiated, TAFE had been criticised by industry and others as being too rigid and inflexible to respond adequately to the needs of their clientele (e.g. Sweet 1993, pp.2-5), and the existence of a substantial pool of unmet demand for TAFE courses certainly creates little incentive for TAFE to be particularly responsive to non-standard requirements. Nevertheless, a client satisfaction survey in 1993 showed a remarkably positive view of TAFE from TAFE graduates. (Dawe 1993) The adoption of flexible delivery policies is improving the market responsiveness and competitiveness of TAFE colleges and institutes (Flexible Delivery Working Party 1993).

While TAFE is a publicly-funded provider of vocational education and training, it is not a monopoly provider. It has always had marginal competition from commercial, industry, enterprise and community-based providers, albeit on a highly restricted and segmented basis. Some suggest that TAFE represents 80-90% of the vocational education and training segment of the Australian market for education and training services, but in 1989 recurrent funding of TAFE was around $1.5 billion, and $1.3 billion was spent on training by industry, of which about half was on formal in-house training (Training Costs Review Committee [Deveson] 1990, vol 2, pp.1-35). TAFE probably accounts for around two-thirds of the Australian vocational education and training segment of people learning in the Australian market for education and training services, and it is structured into eight networks or systems in each State and Territory, so its capacity to compete in a progressively more competitive market for education and training services is quite formidable.

Commercial providers compete with TAFE to win tendered labour-market training projects, and in the provision of a range of off-the-job education and training. They include general business and industry specific bodies, some of which are non-profit but most are profit-oriented businesses. Commercial providers have a well developed business ethos, which they market strongly to their clientele to differentiate their (generally considerably more expensive) service from that provided by TAFE. They typically sell vocationally-specific short courses, usually targetted to niche markets in which they can offer attractive services to fee-paying customers, particularly in areas of unmet demand for TAFE courses (Anderson 1994).

Industry and enterprise providers are directly competitive with TAFE in the provision of vocational education and training services, and industry skill centres frequently compete successfully with TAFE for tendered labour market training projects. Nevertheless, TAFE also has well developed co-operative relations with many industry and enterprise providers, including the provision of

complementary education and training services on either a mainstream TAFE or contractual fee-for-service basis (TCRC 1990, vol 2, pp.1-35). NCVER is currently undertaking and funding survey and case study research in Queensland, Victoria and South Australia on industry and enterprise providers.

Community-based providers seem to compete only at the margin with TAFE, and then primarily in provision of labour-market training purchased by government tender and popular mainstream vocational courses such as computing packages. TAFE and community providers are alternative, and objectively competitive, providers of a range of recreational and personal development programs. Nevertheless, community-based providers seek co-operative relations with TAFE, and the benefits to their clientele that follow from articulation and credit transfer into mainstream TAFE courses, and goodwill is generally reciprocated by TAFE (Barnett 1994b).

Whether these providers of education and training services like it or not, and however they approach the market context within which they provide their services, they are competitors for the custom of people who want to purchase or obtain education and training services. Their customers may deal with them directly as students or trainees, or indirectly, as parents or benefactors or employers or governments of students or trainees. The important objective economic reality is that they are competing to provide services for which there are other providers as participants in a market for education and training service. The underlying market relationship is inescapable in the wider context of a market economy like Australia, unless the present diversity could be replaced by segregated monopoly provision by exclusive publicly-funded providers to different types of clients.

The Australian market for education and training services is not, however, an open competitive market with full and fair competition between the providers of post-compulsory education and training

services. In that sense, the adoption of an open training market as national policy is far from being fully realised in operational reality.

This paper discusses several issues.

- If the reality of the Australian market for education and training services were to become more competitive, would vocational education and training be more or less efficient and effective as a result?

- In what, if any, ways is it desirable that vocational education and training become more market-responsive?

- What are some of the undesirable implications of vocational education and training becoming more market-responsive?

## An open training market

The adoption of an open national training market as a policy objective by a Special Ministerial Conference in November 1990 was a significant change of direction from the approach to TAFE expounded in the Kangan report (Australian Committee on TAFE 1994). The Kangan report expounded a broadly humanist conception of technical and further education (TAFE), and underpinned this with a recommendation in favour of the abolition of fees for studying in TAFE. The Kangan report defined the scope of TAFE as:

> *Education by means of which the individual can:*
>
> *(a) acquire or make progress towards acquiring, by full time or part time studies, assessable occupational qualifications involving mental, manual or social skills; and/or*

(b) *acquire or seek to acquire, usually on a part-time basis, knowledge or skills for secondary, additional or supplementary occupational purposes, or for the purpose of personal development or enrichment, or to utilise leisure creatively.*

(Australian Committee of TAFE 1974, vol I, p.5)

In November 1990 the implications of the decision by Commonwealth, State and Territory ministers to promote the development of a more open national training market were not clearly spelt out. The November 1990 decision became the initial focus of the work of one committee of the (former) Vocational Education Employment and Training Advisory Committee (VEETAC), and an aspect of the work of several others (see below). The pursuit of an open training market was formally incorporated within the national goals adopted by Ministers for Vocational Education Employment and Training (MOVEET) in 1992 as:

*an efficient, effective, responsive and integrated training market.* (MOVEET 1992)

As an economic reality, a market for education and training services exists in a market economy like Australia unless it is stifled by government-imposed monopoly provision. In Australia, we have a highly distorted market for education and training services in existence, but the essence of the open national training market concept as a policy proposition is that ministers favour the development of a more competitive market for education and training services. The adjectives 'open', 'free' and 'competitive' are virtual synonyms in relation to the noun 'market' in conventional economic usage.

However, development of a more open training market can be seen as a process of moving gradually along a spectrum. At one end is a command economy with a monopoly public provider, the staff of which may have few incentives to be responsive to, or even curious about, consumer preferences. At the other end is the 'laissez-faire'

economy with completely commercial, competitive and unregulated providers driven by consumer demand, with staff oriented to profit and attracting consumers who pay or are paid for. Australia in 1990 was at a point along that spectrum, with a dominant oligopoly of public providers, and numerous highly segmented private providers of vocational education and training with essentially different clientele, who compete directly only in a restricted manner (Lundberg 1992; Barnett 1993). Industry was able to contribute advice through TAFE-specific and other industry advisory networks, but individual students had little scope to influence the system. The Australian training market remains a highly distorted mechanism more than three years later, but there have been significant attempts to redress this (see below).

The decision to promote an open training market in Australia can be seen as typical of the ethos of the 1990s, in which the collapse of communism in Eastern Europe and the 'withering away of the state' in many of the advanced capitalist industrial societies are notable developments. Non-bureaucratic mechanisms for achieving public policy objectives are being preferred in many contexts as an international pattern.

The adoption of the open training market objective took place in the context of moves to reintroduce fees in TAFE, and to make TAFE and other vocational education and training a more 'industry-driven' system. That represents a considerable change of direction from the individualistic focus of the humanist vision of the Kangan Report, which saw industry as being well served by a TAFE system that focussed primarily on serving the needs of individual students.

However, it must be recognised that the Kangan vision was a paternalistic one, in which the needs of individual students would be those identified in a bureaucratic, 'top down' manner by TAFE administrators and teachers, with little influence being exerted by real TAFE students. Might a more open market give more influence to Kangan's individual students in practice?

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In a recent paper on the national training market strategy, the director of the Canberra Institute of Technology, Mr Norman Fisher, suggested that NCVER might commission a paper on the issues posed by the training market, which might be followed by a conference on 'relevant theory and practice' (Fisher 1993).

## Competition and co-operation

There tends to be a conflict of policy principles in the training reform agenda between competition and co-operation, although the two are not in inevitable conflict. Indeed, competitive forces may in some cases break down absurdly artificial barriers to co-operation (between schools, TAFE and higher education, or TAFE and the private sector, for instance) which bureaucracies commonly create. However, it is also evident that competition may operate to reduce co-operative attitudes, because arrangements previously provided on a 'public interest' basis become strictly 'user pays' arrangements, with new financial complexities introduced into the arrangements. At times, the pursuit of competitive advantage against potential as well as actual current rivals can inhibit co-operation, and there can be no doubt that co-operation between providers is in many situations a desirable policy objective (Battye 1993).

There is a policy conflict and that could lead to significant problems if policy objectives are not more clearly spelt out, and conscious efforts made to rationally address the policy issue of a desirable balance between these two principles. They will in that case remain in conflict, but there would be better prospects of the tension between them being creative rather than, as it appears to be at present, somewhat inarticulate, fortuitous and haphazard in relation to possibly unintended consequences.

It is probably only in the context of greater clarity on the question of what kind of 'open training market' is being sought that concrete meaning can be given to 'competition' and 'co-operation' as policy principles in the training reform agenda. In particular, both require

explicit attention to the question of what (if any) market regulatory policies are to be pursued in relation to competition and co-operation within the open training market (Lundberg 1992). They are not mutually exclusive. Indeed their coexistence is useful, if not necessary, and that needs to be explicitly formulated in national policy on training reform.

## Limits of markets as an instrument of social choice

Markets as mechanisms for social choice have been criticised because they know 'the price of everything, and the value of nothing'. While they may be efficient arrangements for choosing between alternative means, markets are less well adapted to wise choices between ends or basic values. If there are to be objectives pursued through the vocational education and training system that can not readily be assigned a price, then those objectives may need to be safeguarded by deliberate constraints or regulatory intrusions upon the market. Markets work best in relation to the tangible and quantifiable, and markets are not particularly good at improving equity or quality.

The present goal of 'an efficient, effective, responsive and integrated training market' gives few clues about the balance between market forces and other factors in the formulation of policy. Many economists can apply economic paradigms with a confidence which is independent of, and usually greatly exceeds, the demonstrated validity of the application. Some economists simply assume or assert that the operation of a market will necessarily produce optimum outcomes (Friedman 1962; Lieberman 1989).

Practical experience suggests that there are advantages to having competitive markets for goods and services operating within a regulatory framework which protects public goods that competitive markets are not particularly good at safeguarding.

Markets have had advantages in the creation of incentives to productivity and efficiency in resource utilisation. Under appropriate conditions, markets can enable consumers to exercise choice to shape the provision of goods and services to meet human needs. One precondition is that the information available to consumers is sufficient to enable them to take informed choices, in relation to factors like the employment prospects of certain qualifications and the quality of the education and training services on offer (see below).

Another precondition is that consumers have the means to exercise effective demand in a manner that reflects the nature of human needs in the society, rather than having the supply of education and training services being driven by patterns of demand determined by a minority of wealthy individuals, while the needs of many individuals are not addressed because they lack the means to exercise effective demand by paying for what they need. The subtlety of the market as an instrument of social choice is subject to serious reservations in relation to fair access to the money that influences market outcomes.

Another constraint on market responsiveness is the limits on choice posed by possible provision in particular locations or accessible times by the available range of suppliers. Those TAFE colleges and institutes which proceed to adopt flexible delivery strategies will be enabled to compete more effectively, thereby increasing the pressure on other TAFE colleges and institutes and private providers to improve their offerings to consumers (FDWP 1993). Time and geographic restrictions remain but they are diminishing in their limiting effects with the development of facilities for out-of-hours and distance access through alternative technologies and flexible delivery policies.

Despite the attractions of individual empowerment and freedom of choice in a training market, these principles need to be weighed with questions of educational quality, industry needs, equitable access, limits on choice, access to information necessary for informed choice,

and practical factors affecting the effective purchasing power of individuals.

Some see social fragmentation as the cost of the increased choice being permitted to students/trainees or their families through market-responsive funding measures. In the US, a revival of educational segregation is a constant focus of such concern, but there is also a general concern to preserve the integrating 'melting pot' socialisation effects of the comprehensive US public high school. In Australia, revived sectarianism and/or ethnic exclusivity in education, especially in schools, are possible effects of a system which creates incentives for responding to consumer preferences, given that consumer choices will not always be noble.

Markets register the price of private choices, but a group of individuals deciding in isolation what each of them wants do not necessarily accord proper value to public goods, which each and all of them need. While some purport to refuse to even recognise a distinction between public goods and the aggregation of private goods, there can be a variety of actual or potential conflicts between some public goods and the sum total of private choices. For instance, people buying petrol driven cars may not give due weight to their common interest in healthy air quality. Such conflicts may also occur in relation to balancing individual decisions about education and training services with labour market needs, educational quality and equity of access.

## Balancing educational and labour markets

The question of the overall balance of persons being trained in particular disciplines relative to market needs is a very important public good. Are institutions simply to respond to demand for training in disciplines as it occurs, irrespective of oversupply? If that is a rational response for institutions, is it a realistic approach for governments responsible for the overall operation of the system? The economic importance for the nation of meeting labour market

needs in aggregate outcomes of education and training in the interests of Australia's overall international competitiveness is obvious.

It is also an important consideration for the individuals involved, because the market value of educational attainments will be conditioned by whether a qualification is relevant to the needs of prospective employers. It will also be affected by whether such qualifications are in shortage, balance or oversupply on the labour market at the relevant time.

Despite its appeal in general principle, empowering individuals to choose the education and training provision that suits them will not necessarily result in choices being made that adequately meet labour market needs. As the underwriters of individual choices, governments would have an important regulative impact on global growth, but not on the mix and distribution of growth in provision of educational services.

Balancing of educational and labour markets would be assisted by better feedback to the marketplace, and the prospective student and trainee in particular, from labour market research such as the surveys of employment of university graduates one year after graduation, but wider in occupational and credential coverage. Coverage of TAFE qualifications and career destinations would be very desirable, but probably not sufficient to achieve balance.

Tendering arrangements would permit the a degree of regulation of rates of provision by subject choice, within a market mechanism for determining who delivers the programs. Unless governments simply underwrite community demand through either vouchers or tenders (which is probably unlikely on a consistent basis), some mechanism will be required for balancing the overall mix of provision by all providers, probably by government decisions.

## Access and equity

There are also important conflicts of policy principles between competition, on one hand, and equity of access and quality assurance in vocational education, on the other.
If this potential (and to some extent at least, actual) conflict of policy principles between competition and co-operation is to be resolved, it is probably necessary that some of the presently inarticulate policy premises of the training reform agenda be spelt out more clearly.

The policy objective of an open training market is perhaps the most basic difficulty in this respect. Perhaps the apparently widespread support for this objective is in part conditional on its meaning remaining fuzzy. Too much clarity might become divisive! Nevertheless, the objective seems sufficiently well established in federal, State and Territory governments and their bureaucracies that possible loss of support is a sustainable trade-off against the practical policy implementation advantages of clarifying precisely what it is that is being sought.

To the extent that providers of vocational educational services are to be required to operate on a commercial basis in an open training market, providers of vocational education and training services will be under economic pressure to marginalise any disadvantaged students who cost more to be trained or who require additional capital or recurrent outlays for support. For instance, teaching people with disabilities and non-English-speaking or Aboriginal background may involve remedial measures or special forms of assistance, which make students with these characteristics more expensive to teach. Colleges will tend to try to attract the best students they can, who will learn readily and achieve outcomes that reflect well on the image of their institution. The market rewards winners (Lundberg 1992).

If deliverers of vocational education and training, including TAFE colleges, are to be surrounded by incentives to operate in an increasingly market-oriented fashion, equity of access will

deteriorate under a more open training market. If private providers are not expected to maintain equitable access, but TAFE is—and TAFE is required to absorb the costs of doing so through cross-subsidisation, that is not creating conditions for fair competition. TAFE will tend to try to minimise the costs of fulfilling that obligation, in the interests of safeguarding their overall competitive position, or even to have that obligation removed.

Access will become more inequitable unless governments intervene overtly in the market to impose regulatory minimum quota arrangements to require access for disadvantaged students, or use some form of direct subsidy (possibly including high value vouchers) or tenders for services to disadvantaged students. Regulatory measures would require effective and comprehensive use of a strong set of performance indicators (Guthrie 1988). Even then, given the creative ways in which regulatory measures can be circumvented, direct subsidy arrangements by tender or voucher seem to be the most promising mode of intervention.

If not prevented by appropriate counter-measures, this conflict between the open training market and equitable access may in time become very significant in its effects (Barnett 1993).

## Quality

Competition may, but need not, operate to enhance educational quality. Especially where consumer access to information about factors relevant to informed choice is limited, quality of educational provision may suffer in relation to price competition or advertising hype. In practice, competition does not necessarily lead to improved performance in all aspects of goods and services, and there is no justification for assuming that the operation of a market will necessarily produce optimum outcomes.

Sometimes a combination of consumer education and regulatory measures is needed to raise the profile of something of value until it

becomes a matter of market choice for consumers. For example, safety in vehicular design tended to be a marginal factor in market competition, until a combination of minimum safety regulations and increased consumer education about road safety generated the current active consumer demand for safe car design. Consumer sensitivity to passive smoking side-effects to smoking in public places is another case in point.

Quality is a subtle good, that is generally appreciated but difficult to define. It is also not merely a matter of efficient means (where markets excel), but a question of what is being sought; a question of ends (which markets can have a tendency to depreciate). Quality has a 'contextual, holistic nature', requiring both minimum standards and an appreciation of excellence (Hinchcliff 1993, p.45).

The public good of quality almost certainly requires much more attention than it has previously, whether the future lies with the restoration of bureaucratic allocation or an emerging market model of system management. NSW TAFE, for instance, is undertaking active measures to enhance quality (Holland 1992). Maintenance of quality minima and labour market relevance (without limiting quality above the minima or wider breadth) can be regulated within a vocational education market operating within the framework of defined national competency standards. The role of the National Training Board, in promulgating standards which industry-based competency standards bodies have defined as meeting industry needs, will be as useful a guide to intelligent consumer choice in the context of a market system, as it is for bureaucratic allocations under the traditional system.

The market value of qualifications will also depend on the existence of adequate arrangements for recognition of qualifications attained. This underlines the importance of the arrangements for the National Framework for Recognition of Training (NFROT) which were established in 1992, even though the implementation of NFROT is posing difficulties (Peak 1993). Adequate arrangements for recognition of public and private providers and accreditation of

courses, both subject to adequate quality controls, will be no less desirable in a more market-responsive system than they are at present. Indeed, without such arrangements, consumer choice would be ill-informed about essential attributes of what is being bought from whom, which would systematically distort the operations of the market. NCVER case studies of commercial and community providers found that students are currently making decisions on a very subjective basis, with inadequate genuine information (Anderson 1994; Barnett 1994). Choices between university and TAFE are also not usually well informed (Chapman & Smallwood 1992). To minimise such distortions, a competitive training market should be underwritten by arrangements for 'feedback' to consumers on relevant characteristics of educational providers, including impersonal data on the success rates of their former students, and this would require a degree of regulation of provision of information in a comparable form.

In any market, outcomes are quite dependent on the information available to consumers to enable them to take informed choices. Competitive market forces will not necessarily produce satisfactory quality outcomes, if there is a competitive incentive to allow standards to deteriorate if necessary in the cause of undercutting competitors on price. Quality can only be a focus of consumer choice if the market has access to relevant and credible information, and informed consumers can oblige providers to compete on quality as well as other factors.

## Yes Minister?

In the implementation of the ministerial goal of an open training market that operates in an 'efficient, effective, responsive and integrated' manner, there are genuine public goods, such as quality outcomes, equity of access, a balance between training activities and labour market needs, and possibly other values, that may need to be protected.

Devotees of *Yes Minister* might see the skeleton of an Australian script in the bureaucratic follow-up to the ministerial decision of November 1990.

In April 1991, at its first meeting after it was established by the Special Ministerial Conference in November 1990, the (now replaced) Vocational Education, Employment and Training Advisory Committee (VEETAC) created a number of subcommittees and working parties to assist it in the task of advising the (now replaced) conference of Ministers of Vocational Education, Employment and Training (MOVEET), to which VEETAC reported periodically.

In response to the open training market concept, VEETAC established a working party to deal with 'enhancement of TAFE's role in the training market' to review patterns of 'governance and management' in TAFE systems, and to develop a set of principles related to the balance between commercial and community service operations in TAFE, while a sub-group of the working party examined fee-for-service activity in particular. By November 1991, that working party had changed from the 'TAFE and the Training Market' working party to the 'TAFE governance and management' working party. Rather than examining ways in which the provision of vocational education and training services might be opened up to more vigorous competition, the focus of this body was on enhancing TAFE's capacity to compete.

Other VEETAC committees also took up important issues that related in various ways to the development of a more competitive training market, including tuition fees, greater recognition of private providers through the National Framework for Recognition of Training, and other detailed policy development work. Nevertheless, the body concerned with training market policy was narrowly circumscribed in its terms of reference.

With this lack of an integrating subcommittee or working party within the former VEETAC structure with the responsibility for directly and comprehensively addressing the development of a more

competitive training market across vocational education and training, it is not surprising that the process of change is still very gradual.

Initial measures introduced during the VEETAC era (1990-1993) have included promotion of fee-for-service courses, joint ventures, reintroduction of tuition fees in TAFE, and some tendering for government funds. Further extension of tendering provisions and funding through vouchers have been and are being considered in various quarters. Further possibilities include direct studies of market distortions in the provision of education and training services.

While the pace of change is gradual, the direction of change is clear enough, and the new Australian National Training Authority (ANTA) appears to be gearing up to address the issue of promoting a competitive training market in a more focussed way than the VEETAC structures it has replaced. The future of TAFE and other vocational education and training providers is likely to turn on them responding to market needs efficiently enough to compete and preferably flourish in an open training market.

## Fee-for-service

Encouragement from governments for TAFE colleges or institutes to become more 'entrepreneurial', by competing more vigorously for industry 'fee-for-service' customers, was a feature of the late 1980s. In 1989, encouragement of fee-for-service projects was incorporated into resource agreements between DEET and State and Territory TAFE authorities. In NSW in particular, for a time particularly ambitious quotas were being set for the future balance of government funding and fee-for-service income (Management Review 1990, p.37).

There was a steady increase in fee-for-service activities by most TAFE colleges and institutes as managers were assured that this was

an avenue of growth funding that would not be offset by cutbacks in other funding. Many TAFE people were, however, concerned that the prolonged growth of fee-for-service activity by TAFE would have adverse effects on the 'balance' between fee-for-service and mainstream or standard activities. Concern has also been expressed that fee-for-service activities have created a competitive culture which has diminished TAFE's collective strength by weakening co-operative ventures within the TAFE system.

## Joint ventures

Before the Special Ministerial Conference, federal/State TAFE resource agreements related to Commonwealth funding programs included (rather limited) incentives to enter into joint ventures with private firms in order to acquire additional equipment. A number of TAFE colleges, notably Regency College in SA, already had an established history of success in such operations.

The small-scale of the incentives provide (around $3 million for all Australian TAFE colleges in 1989) was a major deficiency of this program. It could, if expanded, have assisted TAFE colleges to contribute to joint ventures with industry which would enable more colleges to benefit from arrangements which some colleges have initiated (with and without federal inputs) to upgrade their facilities in co-operation with private industry, usually on a co-operative user basis. Given the difficulties experienced by TAFE in maintaining equipment that is reasonably consistent with contemporary industry practice, joint ventures have considerable scope for further application.

## Tuition fees

Tuition fees were abolished in TAFE at the recommendation of the Kangan report, but since 1991 they have returned vigorously. The Commonwealth managed to arrange for the States and Territories to

request the electorally unpopular step of removing the Whitlam government's legislative proscription against TAFE fees in the TAFE funding legislation. The formal reintroduction of tuition fees followed recommendations in the Deveson report (TCRC 1990), and a considerable growth in non-tuition administrative charges and fees which in a context of significant levels of unmet demand were becoming de facto surrogates of tuition fees. Nevertheless, the reintroduction of tuition fees has begun to change the mix of TAFE provisions.

The potential effects of tuition fees on disadvantaged clients is a matter of serious concern, on which NCVER is publishing a discussion paper (Barnett 1994a) and undertaking further statistical studies.

## Private providers

The role of industry, enterprise, commercial and community-based providers of vocational education and training as competitors with TAFE has already been described above. However, the adoption of the open training market policy has led to developments which are progressively increasing the scope for private providers to compete effectively.

Private providers have generally experienced considerable difficulty in the past in entering into fields where TAFE have developed curricula, assessment, articulation and credit transfer arrangements. The very complexity of the administrative and educational ethos of the TAFE system has presented difficulties to private providers that have effectively operated as constraints on, if not barriers to, market entry, when recognition of vocational education and training effectively meant recognition by TAFE on TAFE's terms.

The National Framework for Recognition of Training (NFROT) has contributed substantially to improving the future scope for competition between TAFE and private providers through the

NFROT arrangements for registration of providers and accreditation of courses. These arrangements will increase the credibility of private providers with potential users of their courses, and secure the basis for articulation and credit transfer to other public and private providers, to the benefit of those of their clientele who wish to proceed to further studies.

ANTA is reinforcing the agreements related to NFROT on private providers by requiring that the State and Territory strategic plans for vocational education and training deal adequately with the needs of industry and the role of private providers.

## ITABs and ANTA

Industry training advisory bodies (ITABs) have had a long and rather mixed history. The Commonwealth Department of Employment Education and Training (DEET) and its predecessors undertook a sustained campaign to improve the effectiveness of the national ITABs, including requests for strategic plans and more focussed advisory work, and rationalisations of the State and Territory ITABS have been undertaken in several jurisdictions. Nevertheless, ITABs have been strongly criticised, particularly by the Employment and Skills Formation Council (ESFC 1990; ESFC [Carmichael] 1992, recommendation 13).

In a critique of training reform agenda policies, Sweet juxtaposes local responsiveness to industry needs against national consistency, and asserts the pre-eminent importance of the former over the latter, idealising the potential advisory input role of industry in the process (Sweet 1993). The experience with ITABs suggests that making more opportunities available to industry to advise TAFE on the provision of courses will not necessarily lead to a commensurate response from industry, in quantity or quality of advice. Moreover, evidence from surveys and case studies of the requirements of employers suggest that the attributes to which employers accord the most importance are not subject to substantial local variability, but are

closely related to key competencies and related attitudinal orientations (DETAFE 1993; Beare & Millikan 1988; BCA 1990; Hayton & Loveder 1992; TNSDC 1992).

Australian business has not in the past been oriented to intensive development of internal labour market strategies (NLCC, 1987), but only about 10% of industry training is externally sourced (TCRC 1990, vol 2, pp.1-35). Within that scale of activity, they are likely to continue to relate to (public and private) external providers of training who deliver programs to meet their general training needs, as well as being engaged in many cases to assist with enterprise-specific training on a fee-for-service consultancy basis (Curtain 1990; DETAFE 1993). There is every reason to expect that national consistency and consequential recognition and portability will continue to be valued because it is in the interests of employers and employees.

The new ANTA structure which acquired operational powers in January 1994 is giving every indication of taking both improvements in the ITAB networks and the concept of a more competitive training market very seriously. The responsiveness of vocational education and training to the needs of the marketplace is a strong theme in the public statements of the new body (Moran 1992, 1993; cf. Ramsey 1993).

ANTA has the potential to develop into a nationally co-ordinated funding body of some significance, although in the first few years its funding discretion is severely limited by a formula which is incorporated in the federal/State agreement on the basis of which it was established. In each State and Territory complementary bodies have been established to liaise with ANTA and the internal delivery bodies, by legislation in Queensland and by executive ordinance in other States. Generally, these bodies (like the Board of Vocational Education and Training in NSW) have an arms-length relationship to public providers (like the NSW TAFE Commission). That represents further change from common practice a few years ago, in which funding and regulation of vocational education and training was

generally undertaken within the TAFE authorities which were also the public provider.

## Tendering

Following the ministerial decision in November 1990 on development of a national training market, proposals for freer competition between public and private providers have been primarily concerned with improvements in recognition arrangements for private providers (covered by the new National Framework) and suggestions that a (probably gradually growing) share of government recurrent funding for TAFE should be allocated through a tendering process (DEET 1991, pp.22-23).

This was a key element in the VEETAC paper prepared as an input to the ESFC consultations on entry-level training. At about the same time, the Commonwealth Employment Service Advisory Committee took a very positive approach to tendering arrangements for DEET's labour market programs (CESAC 1991). The Employment and Skills Formation Council report on an *Australian Vocational Certificate Training System*, greeted the proposal very cautiously because of widespread criticisms in the consultations of tendering arrangements under existing federal labour market programs.

If tendering is to be extended, it cannot be conducted on the basis that it is usually done within DEET labour market programs without putting the quality of education and training at risk. Purchasing of short courses with no obvious mainstream linkages or articulation to fix short-term labour market needs, primarily on the basis of price and availability, by relatively junior officers with little training in discernment of the quality of the services they are purchasing, would not be conducive to improving quality. While tendering extends the scope for competition between public and private providers, and within the public sector, the reliance upon bureaucratic decisions at the point of selecting who is to be awarded contracts is a weakness that voucher schemes do not have.

The ESFC advocated use of the quasi-voucher 'youth guarantee', and the development of networking arrangements as a co-operative approach to the integration of public and private education and training provision; such integration being one of the perceived benefits of a training market (ESFC 1992). Since the ESFC (Carmichael) report on the AVC system, the National Board of Employment, Education and Training in *Filling the Need* has taken tendering proposals further, suggesting that future growth in tertiary education should be allocated by tendering, on a program rather than a sectoral basis, to increase opportunities for competition between prospective providers (NBEET 1992). The NBEET proposals would probably be similar in practical effect to arrangements already in place in New Zealand, and they would provide a substantial further impetus to competition in the market for education and training services.

New Zealand has introduced a system of what is called equivalent full-time student (EFTS) funding in tertiary education, which has the effect of placing universities, polytechnics and private providers on an equivalent basis for recurrent funding and student assistance purposes, similar to a comprehensive tendering scheme in effect. (NZ Ministry 1992).

## Vouchers

A comprehensive system of funding of vocational education and training delivery by vouchers would be a major step towards a more market-responsive system.

The fundamental attraction of vouchers is the concept of freedom of choice, and empowerment of individual students or the households in which they live with the means to exercise effective demand in the educational marketplace. Vouchers could be used to empower purchasers of educational services with the financial resources to buy the education each purchaser would prefer, from the provider each would choose. The State would provide a voucher to students

(or their family or guardians) and the students (or their family or guardians) would pass the voucher to public or private providers of educational services, who would in turn convert the vouchers into payment by passing the vouchers back to the State.

In principle, educational services would be provided in a free market, controlled by consumer choice, rather than through a system shaped primarily by governmental resource allocations. Vouchers would, in theory, produce this result whether the providers were all public or all private or some mix of both. If vouchers enable consumer choice to intervene to determine which providers receive what resources, this would fundamentally change the power relationship between consumers and public providers of services, compared with a system dominated by public providers who are directly funded by the State, over whom consumers have few if any means of effective influence.

The advocacy of voucher schemes in the USA tended to focus on schools, for a variety of reasons which are not equally present in Australia, including distributing state-collected revenues on a more equitable per capita basis to overcome the gross inequities caused by using locally-collected property-based taxes to fund school 'districts' in most US states. US judicial interpretations have constrained support by US governments for religious private schools, to prevent 'establishment of religion', but Australian judicial interpretation of section 116 of the Australian constitution has not restricted 'state aid', despite the historical derivation of that section from the US constitution (Catterall 1984; Chubb & Moe 1990; Coons et al. 1970; Mecklenburger & Hostrop 1972). At present there are no politically significant proposals in Australia for vouchers applying generally to all school education, although these have been advocated by the Institute of Public Affair's Education Policy Unit (Kramer et al. 1992).

In the UK, the Conservative government issued a White Paper in May 1991 proposing a system of Training Credits for all 16 and 17 year olds leaving full-time education by 1996, with strong support

from the Confederation of British Industry. The British government's intention is to build on experience derived from this scheme, and another for unemployed adults, to extend the application of voucher principles (Further Education Unit, 1992). Before the March 1993 federal election, the Australian coalition parties announced a system of training vouchers, 'applying wherever possible the principle of funding the individual person for their vocational education and training needs, rather than institutions'. The coalition saw training vouchers as encouraging efficiency, responsiveness, diversity and additional private investment through competition between public and private providers on similar terms, with less bureaucratic regulation. The disadvantaged would be assisted directly (Kemp 1992).

Before the last federal election, the Australian federal opposition Liberal and National coalition parties also announced voucher proposals for higher education and vocational education and training. Dr Kemp, then opposition education spokesperson, announced that federal capital and recurrent funding for education, currently paid directly to universities in accordance with negotiated 'educational profiles' for each institution, would be paid to students in the form of vouchers called National Education Awards. Universities would be free to offer any courses to any number of students, and to charge any additional fees they saw fit to levy, including offering of full-fee places to Australian and foreign students in addition to those funded by vouchers. Student loans would also be provided. During the election campaign, Dr Kemp indicated that the coalition favoured an adaptation of this policy to TAFE funding.

The Australian House of Representatives Committee on Employment Education and Training advocated a form of voucher scheme called a 'youth guarantee' in its 1989 report on *The Restless Years*. This concept was taken up in the Australian Education Council's 1991 *Finn Report* and in the Employment and Skill Formation Council's Carmichael Report on the *Australian Vocational Certificate Training System*. However, the proposal for governments to fund two years

of post-compulsory education and training for all young people has yet to be implemented by governments.

Such a scheme would, in effect, be a voucher scheme that is limited in scope in relation to the full range of education and training in Australia, but potentially very significant in relation to TAFE and the national training market. Arguably, the 'youth guarantee' should be seen as a key element in the successful implementation of the Australian Vocational Certificate Training System, particularly the framework agreements underpinning integrated networks that are the central feature of the proposed system's delivery arrangements, (ESFC 1992, recommendation 9).

Despite the attractions of individual empowerment and freedom of choice espoused by advocates of vouchers, these principles need to be weighed with questions of educational quality, equity of access, labour market imbalances, limits on choice, access to information necessary for informed choice, practical factors affecting the effective purchasing power of vouchers, and the risks of fraud. The risks of fraud can be recognised and acknowledged readily, but adoption of effective measures to minimise fraud could be very complex. The scope of coverage of voucher provision (in relation to types of services and types of providers), the value of the voucher (in relation to average and actual total costs of different types of courses), and practical administrative details such as progression to higher levels of qualification, and the consequences of failure also need to be considered. With these complexities in mind, it is perhaps not surprising that to date the history of vouchers does little to inspire confidence (Lundberg 1992).

## Corporatised TAFE

Direct tendering by ANTA to TAFE or private providers or EFTS-style arrangements could maintain a valid supervisory role for State and Territory TAFE authorities. However, if all capital and recurrent funding were delivered through vouchers paid to students,

State and Territory TAFE authorities would diminish significantly in operational relevance.

TAFE colleges or institutes (or consortia of them) would need to operate as quasi-commercial or 'corporatised' government business enterprises, or else they would lose market share and ultimately become non-viable and be forced to close, like unsuccessful businesses. TAFE may remain State-owned, but it would have to compete for voucher or tender funding by attracting student/trainee consumers by operating on the most commercially viable basis achievable.

Good TAFE colleges, like good public schools, need not fear such a regime, because TAFE is presently a dominant market provider, in the vocational education and training field, and there are few, if any, vocational education and training counterparts to Australia's well established private schools. Furthermore, under entrepreneurial leadership, TAFE colleges would be well placed to tender competitively or to offer attractive packages to consumers with vouchers, and to enter into joint ventures with schools, businesses and private providers. The better TAFE colleges would generally flourish. Nevertheless, the private schools may be an indication of the potential competition for TAFE that might develop if a training market were underpinned by comprehensive voucher or tendering schemes.

Would there be any justification for a policy of engineering a balance in the scale and role of the public sector, or is that a matter that can be left to market forces? Surely, in principle, the public sector TAFE providers are means to an end, not ends in themselves, and they have no claim on public protection. In a competitive market, the 'proper share or role' for TAFE would be a matter to be determined by the market. A possible rationale for a new protection policy for public sector TAFE might be based on the substantial existing public investment in TAFE. However, proponents of public sector provision should have some confidence that if TAFE is faced with

the need to survive in the market-place, it should be well placed to do so, given its present market share.

However, without 'featherbedding' any participants, there may be factors that would distort fair competition, to which public policy should devise remedial measures. For instance, during the transition to more competitive practices, differences between TAFE colleges in the age of plant and equipment could cause major inequities between old and new institutions, and the differing costs of additional capacity between those which can expand readily and those which can not because they are landlocked in old established areas with committed land usage or areas with high surrounding property values. This poses issues which may require direct funding to rectify inequities.

Similarly, the costs of delivery by course type also vary, posing issues of considerable importance in relation to the overall outcomes of a system of vouchers or tendering. The National Board of Employment, Education and Training has undertaken a major project on relative teaching costs in higher education, which vary considerably. An obvious weakness of the coalition's pre-election higher education voucher proposal was the apparent intention to provide vouchers to cover an average fee, with universities having pricing flexibility. A 'gap' would develop, which students would need to pay. That would be quite defensible in the case of expensive courses like medicine or dentistry, which provide entry to well-paid professions. It would not be fair in relation to courses like science, which are expensive to provide, but do not typically lead to incomes substantially better than those available to students taking courses that are cheaper to provide, such as accounting.

The issue of computing costs of delivery by course type poses an administrative issue for Australia's TAFE systems and other providers of vocational education and training, because at present data systems are simply not adequate for the requirements of real competition between TAFE and private providers. If TAFE colleges are to compete effectively in a national training market there would

seem to be a case for the collection of appropriate cost data to provide more adequate management information systems.

Essentially, where the numbers of places are limited, access will be rationed by price and/or (some form of) queuing. Allowing fees or charges above the public provision through vouchers or tenders would provide a price mechanism for regulating access. Queuing rules might include 'first come first served' or merit selection mechanisms with progressively higher 'cut-off scores', which occurred in 'blockaded faculties' in universities when tuition was free.

These factors also have implications for the relationship between individual choice and overall system outcomes.

## Analysis and review of market distortions

Markets are not necessarily perfectly self-sustaining. The Australian Trades Practices Commission has general national responsibility for market regulation in Australia and it is an example of the requirement for external umpires to intervene from time to time to safeguard the rules of the game for everyone. This will in due course become necessary in the training market as reality begins to approach the rhetoric, and the removal of market distortions becomes a real issue.

The market regulation philosophy of the Australian Trades Practices Commission places emphasis on the preservation of openly contestable markets. Markets which are openly contestable are free and competitive in the sense that they have no significant barriers to market entry by new competitors whenever existing providers are not responding adequately to consumer demand in terms of quantity, quality or variety (Australian Trades Practices Commission 1990). This approach would not construe TAFE's presently numerically predominate market share a competition issue as such,

provided TAFE is satisfying consumer demand or other providers are moving in where they fail to do so.

If ministers are to really pursue a more competitive training market in Australia, there is a need for an analysis of existing market distortions and the implications of taking action to eliminate or modify factors which impinge on free market operations. (This could build on work which is currently being undertaken by the Office of Training and Further Education in Victoria.) The concept of openly contestable markets rather than a 'level playing field' would be a realistic and appropriate basis for such an analysis. It would be entirely consistent with the decision of the prime minister and premiers in the Council on Australian Government meeting in February 1994 to extend the Trade Practices Act to services, and to widen the scope of competition policy (*Australian Financial Review*, 28 February 1994, pp.1, 12). Some 'distortions' may be entirely appropriate, such as regulations to require at least appropriate minimum standards or to secure acceptable access and equity in the provision of vocational education and training services.

## Conclusions

The general concept of encouraging the development of a more competitive market for vocational education and training services is a good one, provided it is understood in terms of a regulated market, rather than a 'laissez faire' one. Experience with mindless deregulatory policies in the US airlines industry, or banking in Australia, or with environmental degradation caused by reliance on 'self regulation', highlight the need for an adequate regulatory framework to secure public goods like quality and equity, which competition may not safeguard.

The underlying rationale of increasing freedom of choice and dispersion of power is impeccable in principle. It is congruent with the values underlying both education as individual empowerment, and general democratic principles. The encouragement of diversity

is also entirely consistent with liberal pluralist values that are held in high esteem by most Australians.

Provided the appropriate safeguards against abuse, and for equity and quality, are established, a more competitive training market may produce tangible benefits in terms of delivery of education and training that is relevant to social needs, including those of individuals and industry.

If appropriate systemic preconditions are met, the resultant education and training may better meet the diverse preferences of those undertaking education and training. Competition may produce cheaper and more responsive provision of services. Educational services produced in response to consumers with vouchers (for example) may not, however, be more appropriate in terms of industry's needs.

Further steps in the direction of fostering competition, such as vouchers or comprehensive open tendering, could do a great deal to accelerate the responsiveness of vocational education and training providers to needs defined by the market. Vouchers or tendering could be used in part to limit or offset the effects of increasing tuition fees in vocational education and training. Comprehensive open tendering could be undertaken in a strategic manner to foster training reform agenda objectives, but provision of vouchers with restrictions on the type of application in which they might be used could achieve the directive advantages of tendering and the potentially invigorating benefits of individuals choosing providers for (specified) types of services.

It would be prudent for a thorough program of pilot studies to be conducted, with rigorous formative evaluations, before any irrevocable commitment is made towards general implementation of further measures to make the training market more competitive. (Harris 1993) The pilot projects introduced to test the elements of the Australian Vocational Certificate training system is a refreshing example of testing and evaluating policy reforms in this way.

Prudent arrangements for implementation are essential if the potential benefits of a training market are to be realised, without jeopardising important public goods.

Above all, there is an urgent need for a thorough analysis of distortions in the training market to be undertaken as a basis for further informed developments in the direction of a competition policy for the provision of education and training services in Australia.

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